



DEPARTMENT OF
EDUCATION

HIGHER SCHOOL
CERTIFICATE
EXAMINATIONS

ECONOMICS
PAPER 1

Monday

23 October 2010

Time allowed: 2 hours
(1100 – 1300 hrs)

NO EXTRA TIME
(NO OTHER TIME)

Candidates are advised to
fully utilise the allocated
time

Ec1

INSTRUCTIONS TO CANDIDATES:

(To be read out by the external invigilator before the start of the examination)

1. Check that there are **8** printed pages in this question booklet. An **8**-page answer booklet is enclosed in the centre of this booklet.
 2. Take out the answer booklet and check that you have the correct number of pages.
 3. Write your name, number and school name in the spaces above AND in the spaces provided on the Answer Booklet.
 4. There are two sections in this paper. Answer all questions.
 5. Section A - consists of 20 Multiple-Choice Questions worth 1 mark each. (20 marks)
 6. Section B - consists of 6 Short Answer Questions worth 10 marks each. (60 marks)
- TOTAL MARKS = 80
7. Answer all questions in the spaces provided on the answer sheet provided. Show all necessary working for full marks.
 8. Candidates are advised to spend the first 10 minutes reading through this paper.
 9. Calculators may be used.

DO NOT WRITE ON THE QUESTION PAPER.

*Answers written on the QUESTION paper will not be marked.
Write answers neatly in spaces as allocated on the answer sheet.*

**DO NOT TURN OVER THE PAGE AND DO NOT
WRITE UNTIL YOU ARE TOLD TO START.**

SECTION A (Questions 1 to 20)

Write the answers to your questions in the answer sheet by writing the correct alternative, A, B, C or D only. Answers marked on this question paper will not be marked.

QUESTION 1

An effective way to deal with the dumping of low quality goods is through imposing

- A. tariffs. B. quotas. C. embargoes. D. bilateral trade.

QUESTION 2

One disadvantage of maintaining the fixed exchange rate is it

- A. encourages imports and discourages exports.
B. discourages the hedging of funds and money laundering.
C. encourages capital flight into the country.
D. reduces the trade deficit.

QUESTION 3

In calculating the balance of payments, a larger Current Account Surplus and a smaller Capital Account Deficit will result in

- A. a balance of trade surplus. B. a balance of payments surplus.
C. a balance of payments deficit. D. increasing the capital account deficit.

QUESTION 4

Which of the following is a capital and financial account item in the balance of payments?

- A. purchase of shares in PNG companies by foreigners
B. money inflow from abroad
C. port service payments by foreign ships in PNG ports
D. huge money transfers by international NGO's

QUESTION 5

If an economy were suffering from chronic unemployment without inflation, which of the following policy measures would be most likely to reduce unemployment?

- A. open market bond purchases by the Central Bank
B. open market bond sales by the Central Bank
C. a reduction of the budget deficit
D. an increase of the budget surplus

QUESTION 6

The net barter or commodity terms of trade is based on the

- A. import and export price indexes.
- B. import and export quantity indexes.
- C. net overall balance of trade.
- D. net income earned from trade.

QUESTION 7

Inflation redistributes income in the sense that

- A. it takes from the rich and gives to the poor.
- B. prices rise faster than wages.
- C. some incomes keep pace with price increases while others do not.
- D. when money incomes are constant real incomes fall.

QUESTION 8

Which of the following would best represent a progressive tax rate?

- A. tax amount increases as income increases
- B. tax amount increases while tax rates remain constant
- C. tax rate increases as income increases.
- D. tax amount increases as tax rate increase

QUESTION 9

In the factor markets of the Circular Flow of Income, the household supply factor inputs and firms

- A. supply goods and services.
- B. demand goods and services.
- C. factor payments.
- D. demand factor outputs.

QUESTION 10

To increase aggregate demand and employment, the Bank of PNG, through the commercial banks, should

- A. increase interest rates.
- B. sell bonds, bills and securities.
- C. reduce liquidity ratios.
- D. increase the Kina facility rate.

QUESTION 11

To increase employment using fiscal policy, the government should

- A. decrease the Kina facility rate.
- B. increase the tax rates.
- C. increase government expenditure.
- D. buy bonds, bills and securities.

QUESTION 12

The consumer price index (CPI) is a measure of the average

- A. consumption expenditure of the average household.
- B. price change of all consumer goods and services.
- C. prices of a specified group of consumer goods and services.
- D. price change of a specified group of consumer goods and services.

QUESTION 13

The term stagflation is used to describe a situation in which the economy experiences

- A. rising prices and rising unemployment.
- B. rising prices and over-full employment.
- C. stable prices and rising employment.
- D. rising prices and rising employment.

QUESTION 14

Suppose that the government wants to increase its own spending, and wishes to limit spending by the private sector as much as possible. It would be best to finance the increase in government spending by

- A. taxation.
- B. borrowing from overseas.
- C. borrowing from the public.
- D. borrowing from the Central Bank.

QUESTION 15

The main feature that differentiates a market structure is the

- A. type of products produced and sold.
- B. number of firms in the market.
- C. number of consumers in the market.
- D. level of profits made.

QUESTION 16

Government intervention in the labour market through minimum wages will result in

- A. excess demand for labour.
- B. excess supply of labour.
- C. less demand for labour.
- D. smaller supply of labour.

QUESTION 17

In an oligopoly market, firms can collude and form a cartel to become

- A. a monopoly.
- B. a duopoly.
- C. an oligopoly.
- D. competitive.

QUESTION 18

The study of the economic problem is concerned with the concept of

- A. poverty. B. scarcity. C. shortages. D. inefficiency.

QUESTION 19

The demand curve is downward (or negatively) sloping to show the

- A. inverse relationship between price and quantity supplied.
B. positive relationship between price and quantity demanded.
C. inverse relationship between price and quantity demanded.
D. normal relationship between price and demand.

QUESTION 20

When selling goods with inelastic price elasticity of demand, total revenue will

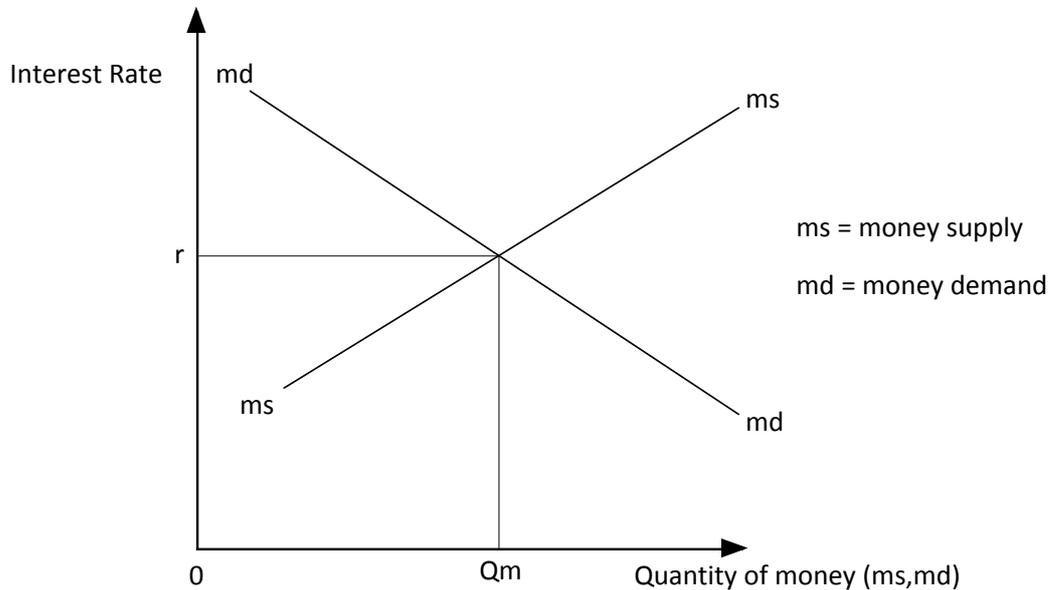
- A. rise as price falls.
B. rise as price rises.
C. fall as price falls.
D. remain constant as price changes.

END OF SECTION A

SECTION B (QUESTIONS 1 TO 6)

Answer all questions in this section in the spaces provided in your answer booklet.

QUESTION 21



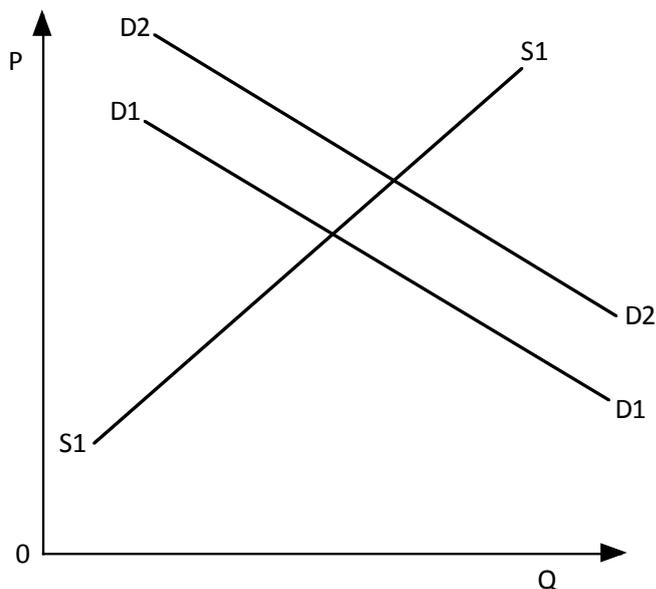
- (a) What is one of the aims of the government budgetary (fiscal) policy? (2)
- (b) Study the diagram below.
- (i) If the Bank of PNG buys government bonds and securities, state which of *ms* or *md* would be affected and how? (2)
- (ii) Explain how the money supply and the interest rates would be affected if the government reduced the LGS ratios? (2)
- (c) Explain the relationship between **interest rates** and **investments**. (2)
- (e) At any one time, a combination of expansionary and contractionary monetary and fiscal policies is in force. Describe the net effect of this policy mix on the economy. (2)

QUESTION 22

- (a) If the government were concerned about increasing total output (GDP) of the economy, why would it want to increase employment at the first instance? (2)
- (b) As an income policy, governments advice employers to implement wage indexation. Why does the government want employees wages to be indexed? (2)
- (c) To create employment in the economy, the government reduces tax rates paid by firms. How does a reduction in the tax rates contribute to creating employment? (2)
- (d) When there is high unemployment and high inflation coexisting at the same time, which problem should the government address first and why? (2)
- (e) In relation to the business cycle, at which economic performance level should the government implement an expansion policy to stabilise the economy? (2)

QUESTION 23

- (a) The diagram below shows the demand and supply curves for a commodity.



- (i) Describe the change to the demand for this good as shown by the diagram. (1)
- (ii) Describe how the supply curve would change in response to the change in demand. (1)
- (iii) Name one possible factor and describe how it could cause the kind of change to the demand for this good as depicted by the diagram (2)
- (b) What would happen to the supply of a good if there were a significant decrease in the price of its inputs? (2)
- (c) Why is a monopolist firm a “price-setter”? (2)
- (d) State a reason why imperfect markets exist? (2)

QUESTION 24

In an economy the government did a survey of some consumer goods. From the results, it was seen that the demand for clothes was income inelastic.

- (a) What does it mean when the demand for clothes has income inelastic? (2)
- (b) List the two main variables that are used to calculate the income elasticity of demand. (2)
- (c) Suppose the government decides to subsidise the garment industry in the country, how will the subsidy affect the supply curve for clothes produced by the industry? (2)
- (d) Describe the kind of change that the subsidy will have on the demand curve of the industry. (2)
- (e) How will the equilibrium price of the garment industry change as a result of the subsidy? (2)

QUESTION 25

(a) Refer to the table below which was extracted from the QEB March quarter of 2010.

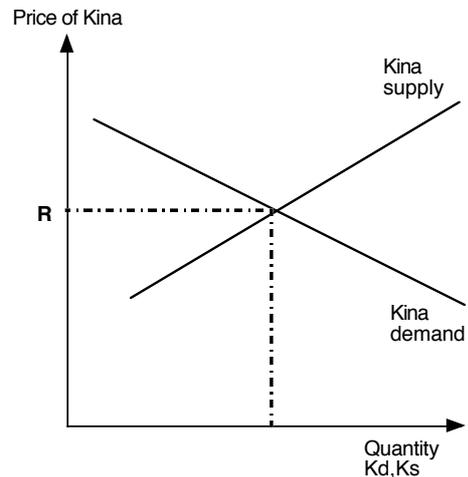
Balance of Payments (Kina millions)

	2008	2009
Current Account	2,145	-1,374
Financial Account	-2,861	2,989
Over-all Balance	-598	1,724
Gross Int. Reserves	5,322	7,046

- (i) Describe the current account balances of 2008 and 2009. (2)
- (ii) Which account contributed to the negative overall balance in 2008? (1)
- (iii) Describe the effect the overall balance of 2009 had on international reserves. (2)

(b) Study the diagram below that shows the freely floating exchange rate mechanism.

- (i) If PNG exports increased, which of kina supply or kina demand would change and how? (3)
- (ii) If the kina supply increased, describe the effect on the freely floating exchange rate. (2)



QUESTION 26

- (a) State the basic reason why international trade exists? (2)
- (b) Describe one benefit of trade for importing countries. (2)
- (c) Refer to the table below.

	Rice (tonnes)	Sugar (tonnes)
PNG	30	60
AUSTRALIA	120	100

- (i) Using the principles of absolute advantage, state which country should specialise in the production and export of sugar and why? (2)
- (ii) Using the principles of absolute advantage, state which country should specialise in the production and export of rice and why? (2)
- (d) Explain what a Free Trade area is. (2)

END OF EXAMINATION